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SUBS [Article by Aleksandr Kislov: "Saratov's Industrial Generals Fight for Reforms and Want To Turn the Shadow Economy Into a Normal Economy"]

SUBJ TAKEALL-- Saratov Oblast's Reform Plans Explained

Full Text Superzone of Message

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2 [Text] Saratov -- At a recent meeting in Saratov with Premier Viktor Chernomyrdin, the directors of the oblast's major enterprises put on the table a package of proposals aimed at making market reforms more radical, at the center of which was a project elaborated by Aleksandr Yermishin, general director of the aviation plant. The premier approved the project and issued the relevant working instructions to the leaders of several state committees and ministries.

3 The Director as the Mainstay of Transformations [subhead]

4 Yermishin's office contains models of Yak-42 aircraft, the plant's main output, and a machine of an intrinsically new design that is reminiscent of a fantastic "flying saucer." The series-produced machine will soon receive its international certificate and will join the "Boeing"; it will cost \$21 million. The "saucer" has already been made up in metal, and preparation for series production is now underway. The aviation plant, transformed not so long ago into a joint-stock company of the closed type, is confidently increasing production in the most difficult conditions of the transitional period. However, our conversation with the director was not about this.

5 "Reforms should be conducted only with the active participation of enterprise leaders," Aleksandr Viktorovich said. "They are the framework which is keeping the economy from final collapse. In Saratov, for example, defense enterprises have great weight. How could the state leave us without an arms program? To this day, you see, there isn't one. If only the government would summon up the courage and declare that there will be no orders."

6 "Nevertheless, you and your colleagues have risen above the grievances?"

7 "But surely grievances are not the point? We have simply realized that this potential will disappear unless it is utilized."

8 However, I think that Saratov's industrial establishment was prompted to get involved in reforms by more than just a patriotic desire to participate in the reconstruction of Russia. Being pragmatists, they extrapolated the development of events in conditions of continuous war between the branches of power and came to the conclusion that the road ahead leads into the abyss. Anyway, everyone realizes that the way back is barred.

9 To continue to build up grievances against the government, accusing it of neglecting the collectives' needs and asking for loans to pay wages, although easy enough to do, is not promising. And here Yermishin proposes a mechanism with whose aid it would possible not only to preserve the collectives but also to secure their future.

10 Cadres Plus Investments -- the Survival Formula [subhead]

11 I have before me a memorandum "On the Mechanism for Collaboration Between the U.S. and Russian Governments in Converting Russian Enterprises and

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C00175461 "ing Private Investors from Both Countries in This Process," prepared by Doctor of Sciences Aleksandr Yermishin in conjunction with scientists from the U.S. National Academy of Sciences. It was submitted to the attention of participants in a meeting of Russian and U.S. delegations on conversion and privatization held at the end of May this year.

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13 [Text] Several factors were the prerequisites for the emergence of this program of reforms in Saratov Oblast. First, the severe shortage of capital for investments and for increasing the working capital of enterprises. Second, the fact that money for conversion is not always used for its appointed purpose. Third, the center of gravity of conversion should inevitably shift to the regions -- it is impossible to run this process from a single center.

14 The mechanism is as follows. The Russian and U.S. Governments would guarantee and sponsor a pilot scheme of reforms in Saratov Oblast, creating for it initial resources in the form of a conversion and privatization fund. This fund would be held in trust by a joint-stock company of the closed type, whose founders would be the professionals themselves -- the economists and organizing managers. Sociological research has been carried out in the oblast, in the course of which nine people were selected who enjoy the trust of the government, the administrations, and the soviets, and are respected by enterprise directors. Money would be lent at interest, on the condition of carrying out the conversion and privatization of, say, 10 major enterprises. In addition, contracts would include a requirement to ensure a certain level of employment, the necessary consumer basket, and the production of goods people need by the enterprises which are converted.

15 But the main emphasis is placed on attracting private investments to the program, both Russian and foreign. Governor Yuriy Belykh has set the task of finding such investors in the oblast. According to Aleksandr Yermishin, today it is possible to speak with confidence of 10 billion rubles which entrepreneurs of Saratov Oblast are ready to invest in the program of reforms.

16 This money will be channeled through specially created investment and insurance companies and a mortgage bank into enterprises of a subsidiary company which will carry out specific conversion and privatization projects.

17 The More Bans, the More Violations [subhead]

18 In short, a consortium is being set up in the oblast which should ensure the real progress of reforms on the basis of market laws and using the mechanism of the economic interest of the subjects of the market and its own employees.

19 "We intend to live in Saratov for a long time, and want to bequeath a normal economy to our children and grandchildren," Aleksandr Yermishin explained. "This is why we are striving for the market. We are in favor of traveling this part of the road as quickly as possible, under the moral control of society. Right now state money ends up in private hands anyway. Everyone knows the 'price' of bank credits, licenses, and quotas. These figures are quoted openly in the newspapers. But the negative effects in our economy can be turned into positive ones. There is such a law: The more bans, the more violations. Why should credits go only to state structures? Why should the man who distributes them receive a miserly wage, constantly tempted by bribes?"

20 "We are mastering the principles of the market economy. And we do not intend to sit on state money. No, we will squeeze the maximum benefit from it for ourselves, but our profits should be directly linked to the efficiency of our work for society."

21 "On the subject of 'laundering' money. If a private person gets hold of money, it can erode society, but it can also cement it together. Yes, billions were made from the sale of vodka, for example, when the state gave up its monopoly. This money takes three paths. First -- to the West. We beg the G-7 for aid to carry out reforms, they give us 3 billion, although there are already 100 billion 'Russian' dollars, as U.S.

C00175461ists have informed me, circulating in the United States. Second: When people have money 'burning holes' in their pockets, it endangers criminal situations. And finally, there is a third route. Turning money into property, into means of production, so that it works here, in Russia. Legally. With profits for the country of their owner. If the law enforcement organs tell me that someone is untrustworthy, I will have nothing to do with him. However, I will not carry out an investigation into where an investor's money comes from.

22 "I took part in a top-level conversation in the General Prosecutor's Office. I say: A rule-of-criminal-law [ugolovno-pravovoye] state has already been built in the country. The period of initial accumulation is ending; capital has formed in certain sectors, and everyone knows this. What remains? Either to allow these tendencies to develop further, in the same direction, or it is time to summon up the courage and admit that the shadow method of accumulating capital is not always criminal. There are market structures which possess a great deal of money. They are actually asking themselves the question: What next? Those who wanted to go abroad have done so. Obviously, it is necessary to create conditions in which money works for society.

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24 [Text] "On the whole they agreed with me. Organized crime has a serious economic component. Why not try to diffuse this situation by legislative and economic measures? It is more comfortable for someone to work in a normal, rather than a shadow environment.

25 "Our plan also provides for a civilized mechanism for lobbying for reforms. This is what the experiment is for -- in order to have an opportunity to freely go to the government or parliament and give first-hand information on the progress of transformations and make proposals as to where the 'rules of the game' need to be changed. For example, it is already clear that there is no use even thinking about developing reforms unless the Criminal Code and tax legislation are amended and the draft laws on private ownership of land and on mortgages [zalog] are dug out from parliament's backlog. You politicians can argue all you want to, but let people produce their goods, bake their bread, and milk their cows."

26 Politicians claim that, in the current situation of dyarchy, a decisive role could be played by an alliance of politicians who support the president and pragmatists representing Russia's business circles. In this case reforms would receive the powerful social base they so badly need. In conditions of relative equilibrium of the forces clinging to power on the political stage in Moscow, practical leaders and the collectives standing behind them would ensure that the reformers prevail and, most importantly, would confirm the inevitability of transformations with weighty economic arguments. (endall) 13 aug [redacted] 24/1156z aug WC

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